

## 7 Success and new technologies as unforeseen circumstances in intellectual property law

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### 1 INTRODUCTION

Unforeseen circumstances do not play a role in a large part of intellectual property law. Important aspects of intellectual property (hereinafter called: IP) law, such as the object of protection (invention, trademark, design, work, plant variety, trade name, etc.), the procedural and substantial conditions for protection, the contents of protection and the limitation, duration and termination of rights, have been defined by (inter)national laws and treaties, and are interpreted in case law in a rather clear and predictable way.

However, agreements between interested parties have always been an important issue in this part of law too, e.g. in licensing contracts, contracts commissioning an order to an artist (to make a portrait, to write a book, etc.), employment contracts containing certain IP elements such as provisions with regard to secrecy, employee inventions and copyright, as well as contracts dealing with the transfer of IP rights.

In this article we would like to focus on current regulations and case law with regard to two important contracts containing IP elements, in particular employment contracts in which provisions concerning employee inventions have been laid down (para. 2), and copyright contracts dealing with the rights and obligations of authors vis-à-vis their works of literature, science or art (para. 3).

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## 2 EMPLOYEE INVENTIONS

### 2.1 The Netherlands

In the year 2011, by far most inventions are performed by individual employees, working single-handedly or in a team, but specifically engaged in order to search for new products or processes or for improvements (on improvements on improvements) on existing products and processes. Despite the fact that these inventors totally outnumber the self-employed, independent inventors, the Dutch Patent Act of 1910 (as well as its successor, the Patent Act of 1995) contains only one provision dealing with inventions by employees.<sup>1</sup> According to the text of this provision (formerly article 10(1), nowadays article 12(1) of the Patent Act 1995), in short, if an employee is the inventor of a new product or process, he is entitled to the patent, unless this person has particularly been engaged to work ‘as an inventor’ (e.g. in a laboratory or on a research department of the company in question). In the latter case (in fact: in 99 per cent of all cases) the fruits of his R & D endeavours will be enjoyed by the employer, who, as a result, will be entitled to the patent.

Article 12(2) and (3) contain similar provisions regarding inventions realized during an internship and inventions at university locations or in other research institutions. Paragraphs 1, 2 and 3 of article 12 are of a facultative nature: the parties involved are entitled to make other arrangements (see article 12(5)).

Through this provision, the legislator has tried to reconcile two different points of view put forward by interested parties: on the one hand those who favour the inventor to be granted the exclusive right as a reward for his/her creative and inventive work; on the other hand those who hold the opinion that only the company should be entitled to protection, because the company has in fact hired the employee against a certain salary which – in most cases – already takes into consideration the *possibility* that the employee will achieve patentable inventions during the term of his employment. Moreover, it is argued that to a certain extent the company’s continuing existence may be dependent on the contents of its patent portfolio.

Be that as it may, article 12 of the Patent Act 1995 also takes into consideration the possibility that – maybe just once in a lifetime – an employee invents something which turns out to be extremely profitable for the company’s

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1 As far as European patents are at stake, see Article 60 of the European Patent Convention. Paragraph 1 of this Article reads as follows: ‘The right to a European patent shall belong to the inventor or his successor in title. If the inventor is an employee, the right to a European patent shall be determined in accordance with the law of the State in which the employee is mainly employed; if the State in which the employee is mainly employed cannot be determined, the law to be applied shall be that of the State in which the employer has the place of business to which the employee is attached.’

revenues. For such cases, article 12(6) contains provisions which are obligatory (see article 12(7)): in short, they read as follows: if an employee has come up with an invention, and according to this article the employer is entitled to the patent, the former is entitled to an equitable remuneration (on top of his normal salary), if otherwise (without the extra remuneration) he would not receive sufficient compensation for the loss of the patent. This additional allowance shall take into account the financial value of the invention and all other circumstances of the case, especially the circumstances which accompanied the development of the invention as such. The employee must file his claim on equitable remuneration within a period of three years after the date of the granting of the patent to the employer.

There are a number of rather indefinite elements in this provision. They will be discussed below.<sup>2</sup> First, where the legislator refers to the financial interest of the invention, it is unclear whether the interest for the employer is meant or for the employee (if the latter would have been entitled to the patent). There is, of course, a big difference between these two options. For the employee in most cases the interest would be considerably lower, because he would have to invest a lot of money in order to finish the invention himself into a product ready to be marketed. This seems to be the correct interpretation, taking into account the text of the provision, which refers to a period of three years after the granting of the right, during which the employee must file his claim: to calculate the interest for the employer would often take a much longer period of time. This interpretation has also been suggested in the literature.<sup>3</sup> However, the Dutch Supreme Court once held, that it was the intention of the legislator to provide the employee/inventor with a reasonable part of the benefits of the invention for the employer.<sup>4</sup>

Secondly, article 12(6) does not clarify whether the value of the invention must be fixed on the date of the granting of the patent, or on a later date. Following the *Perquin* decision mentioned above (footnote 4) it would be necessary to deal with this matter after many years, perhaps even at the end of the term of the patent. This would of course be very unsatisfactory for the employee, having to await the outcome of such a calculation. In other and more recent case law, however, it has been decided that the value of the invention must be established (retroactively) on the date on which the patent was granted.<sup>5</sup> Although this seems to be the better approach, it is not without

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2 See also E.A. van Nieuwenhoven Helbach/J.L.R.A. Huydecoper, C.J.J.C. van Nispen, *Industriële eigendom, deel 1, Bescherming van technische innovatie*, 2002, p. 289 *et seq.*

3 See e.g. B.M. Telders & C. Croon, *Nederlandsch Octrooirecht*, 1946, p. 100; C. Croon, *De rechtspositie van de ontwerper, de maker en de uitvinder in dienstbetrekking*, 1964, pp. 11-12. See also District Court of Den Haag 5 March 1971, NJ 1974, 326 (*Van Kleffens/Instituut voor Tuinbouw-techniek*).

4 Dutch Supreme Court 30 June 1950, NJ 1950, 52, BIE 1950, 77 (*Perquin/Perfra*).

5 District Court of Den Haag 5 March 1971, NJ 1974, 326 (*Van Kleffens/Instituut voor Tuinbouw-techniek*); Hof Den Bosch 4 June 1980, NJ 1982, 30 (*X/Lips*). See also C. Croon, *op. cit.*, p. 12.

disadvantages either, as it may be quite difficult to estimate the gain of a patent at such an early stage, and the result of such estimation could often be open to dispute.

Thirdly, article 12(6) is rather vague with regard to the circumstances that accompanied the development of the invention, and which must also be taken into consideration in order to establish the additional payment, once it has been accepted that the employee is entitled to such payment. This should of course always be decided on a case by case basis; consequently, the outcome will often be highly uncertain. In the *Lips* case referred to above (footnote 5), the Court of Appeal enumerated the following parameters: a) the nature of the activities of the employee, as well as his salary and other (e.g. financial) benefits he has enjoyed in connection with these activities; b) the question whether other employees have also been involved in the development of the invention, and if so, to what extent; c) the question whether the employer has provided the employee/inventor with special facilities and possibilities in order to simplify his research activities; d) the question to what extent the organization of the company enables the commercial exploitation of the invention; e) the question of how the value of invention can be estimated and to what extent additional technical difficulties can be overcome.

It may have become clear from the above that the legal status of employee/inventors in the Netherlands has always been quite obscure. This can also be illustrated by a court decision from 1994 which has become rather notorious, at least among employees. As of 9 October 1969 Mr. Hupkens was employed as a ‘development engineer’ by the company Schuurmans & Van Ginneken. The employment contract contained a provision which stated that the employer would be entitled to patent protection with regard to inventions realized by the employee, and furthermore, that if the employer would apply for protection, the employee would be entitled to an appropriate remuneration, pursuant to (at that time) article 10 of the Patent Act.

In general, with regard to contracts like the one referred to, two further uncertainties may arise: a) first, the question whether the employee must be considered to be an employee/inventor as defined in article 10(1); in this case there was no discussion on this point, as the contract itself referred to the remuneration mentioned in article 10(2) (nowadays article 12(6)); in other court proceedings, a number of criteria have been developed to answer this question;<sup>6</sup> b) even if there is no doubt about article 10/12 being applicable, the decision whether or not to apply for patent protection lies in the hands of the employer only, see also the employment contract in the *Hupkens* case cited above. In other words: so long as the employer (for whatever reason) does

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6 See e.g. District Court of Arnhem 2 March 1933, *BIE* 1933, p. 60 (*Van Dartelen/Algemeene Kunstzijde Unie*); OR AvB (Board of Appeal of the Dutch Patent Office) 3 December 1949, *BIE* 1950, 4. See also B.M. Telders & C. Croon, *op. cit.*, pp. 106-107.

not apply for protection, the right of the inventor to receive an extra remuneration does not yet become operational.

Be that as it may, what happened in this case was that Mr. Hupkens came up with an invention (already in October 1969!) which, in short, turned out to be very profitable for the company. In 1982 the company was granted a patent for this invention. In the meantime, Mr. Hupkens had already left the company in 1973. After the grant of the patent he applied for the remuneration referred to in article 10 Patent Act (and mentioned in his former employment contract). Employer and employee were not able to reach an amicable settlement of their dispute, and therefore they went to court. The Cantonal Court appointed three experts to provide advice on the height of the remuneration. One of these experts advised paying Mr. Hupkens fl. 50,000.- (approximately € 22,500.-), but the other two experts came to the conclusion that he should receive fl. 585,000.- (approximately € 265,000.-) plus an additional amount of money, on an annual royalty basis, for the period starting in 1989. The enormous gap between these two results was caused by the fact that the experts had used a different basis for their calculations (in short: the value of the invention for the employee and the value for the employer, respectively). The Cantonal Court accepted the advice given by the two experts. In the appeal proceedings, however, the District Court set that decision aside. According to the latter Court, article 10 Patent Act provides rules with regard to an additional remuneration, which will apply only rarely, because in most cases the salary of the employee/inventor will be sufficient as it will already take into account the fact that the employee was specifically hired to do inventive work. The advice given by the two experts was based on the wrong principle: it should not have followed the view that the value of the invention must be calculated on the basis of the assumption of a licence agreement concluded between employer and employee. The Dutch Supreme Court upheld the latter decision. It held that according to article 10(2) Patent Act the financial value of the invention is only one of several circumstances which must be taken into account. Moreover, according to the Dutch Supreme Court, equity does not dictate that the employee's loss of the patent should be geared to the advantages obtained by the company as a result of the use of the invention in a manner decided by that company.<sup>7</sup> Thus, Mr. Hupkens received a remuneration much smaller than the one referred to above; in fact that remuneration was not even enough to compensate for the costs of legal proceedings taking more than a decade.

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7 Dutch Supreme Court 27 May 1994, NJ 1995, 136 (*Hupkens/Van Ginneken*).

The *Hupkens* decision has both been welcomed<sup>8</sup> and criticized<sup>9</sup> in the doctrine. Since then, no important developments in this field of law can be reported. In a more recent decision the Dutch Supreme Court repeated its decision in the *Hupkens* case, and, in addition, held that in order to accept the right to an extra remuneration it is 'neither sufficient nor necessary' that no specific component of the salary can be attributed to the employee's loss of the patent.<sup>10</sup>

With a view to the relatively scarce Dutch case law on this topic, the conclusion might be that, in general, employment contracts concluded in the Netherlands between employers and employees/inventors deal with the problem in a satisfactory manner. On the other hand, the absence of case law might also (at least in part) be caused by a certain fear to start litigation against an employer, as this may have a negative impact on the employment relationship in question. In fact, in the majority of published cases on employee inventions, this relationship had already been ended as a result of the conflict arisen between the two parties. Therefore, it could be interesting to investigate employee invention systems applicable abroad. In this context, the German approach differs considerably from the Dutch approach.

## 2.2 Germany

In 1957 the German Parliament enacted the *Arbeitnehmererfindungsgesetz* (Employee Inventions Act).<sup>11</sup> It has been operational ever since, and was only slightly amended in 2009 (see hereafter). The Act's two main objectives are of an economic (to stimulate employees to come up with inventions) and of a social nature (to protect employees/inventors). As a result, the Act contains a considerable number of provisions, dealing with all kinds of conflicts which may arise in this context.

The central notion in this Act is the so-called *Diensterfindung* (service invention). To qualify as a '*Diensterfindung*', pursuant to § 4(2) a service invention must have been achieved during the employment period, and either came into being from the employee's incumbent activity or was largely based on experiences or activities of the enterprise. All other inventions are so-called *freie Erfindungen* (free inventions), which the employee may exploit himself, after the fulfillment of a number of obligations, laid down in § 18 and § 19.

8 See e.g. J.H. Spoor, comment with regard to the *Hupkens* case (footnote 7), *NJ* 1995, p. 527 *et seq.*; Van Nieuwenhoven Helbach *et al.*, *op. cit.*, pp. 293-294.

9 See e.g. A.A. Quaedvlieg, 'De betrekkelijke waarde van een werknemer voor de vooruitgang', *BIE* 1996, p. 121 *et seq.*; A. Rijlaarsdam, *Octrooi en dienstbetrekking*, 2005, p. 84 *et seq.*

10 Dutch Supreme Court 1 March 2002, *NJ* 2003, 210 (*TNO/Termeulen*).

11 See <<http://www.arbeitnehmererfindungsgesetz.de/>> (accessed June 2011).

An employee who has made a 'service invention' has a duty to immediately inform the employer about this invention through a specific form. The employer must confirm the date of receipt of the notification to the employee promptly in writing. In the notification the technical problem, the solution and the realization of the service invention must be described (§ 5(1) and (2)). Pursuant to § 6, the employer has the right to claim the service invention. As of 1 October 2009 (cf. § 43(3)), this claim shall be deemed to have been made if the employer does not release the invention within four months from the date of the notification referred to in § 4: this new provision reduces the administrative burden for the employer compared to the situation before the entering into force of the revised Act.

As a result of the claim, all rights related to the service invention shall pass to the employer (§ 7(1)). Once the employer has claimed the service invention, the employee is entitled to a reasonable remuneration. In assessing the compensation, in particular the economic usefulness of the invention, the role and position of the employee within the enterprise and the share of the company in the realization of the invention shall be taken into consideration. Elaborate guidelines have been drawn up to determine the amount of the remuneration (§ 11).<sup>12</sup>

With regard to service inventions, as a general rule the employer is obliged to file a patent application in Germany, and he is entitled to do so in other countries (§ 13(1) and § 14(1), respectively). The Act contains a number of provisions dealing with several difficulties (exceptions, differing opinions, etc.) which may result from the said obligation, see in particular § 13(2), (3) and (4), § 14(2) and (3), § 15-17.

Pursuant to § 28 all disputes between the employer and the employee arising from this Act shall be settled, free of charge (§ 36), by a special Arbitration Board, to be established at the Patent Office (see also § 37 *et seq.* with regard to further judicial proceedings).

In the past, the system laid down in the German Act was sometimes criticized, e.g. because of the administrative burden it places on the employer, or because the big differences between the German system and legal systems applicable in other countries might be an obstacle for international (*intra-company*) cooperation in the field of R & D.<sup>13</sup> However, on the whole, the German Act has been accepted by the interested parties and has been judged positively by several authors. The system is considered to contribute to a good working climate, as well as to the technical development and the competitive

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<sup>12</sup> See e.g. <<http://transpatent.com/gesetze/rlarberf.html>> (accessed June 2011).

<sup>13</sup> See e.g. K. Meier, 'Bewährtes deutsches Arbeitnehmererfinderrecht?', *GRUR* 1998, p. 779 *et seq.*; R. Kockläuner, 'Bewährtes deutsches Arbeitnehmererfinderrecht?', *GRUR* 1999, p. 664 *et seq.*; Deutsche Vereinigung für gewerblichen Rechtsschutz und Urheberrecht, 'Stellungnahme zu einer Revision des Gesetzes über Arbeitnehmererfindungen, *GRUR* 2000', p. 385 *et seq.*; H. Vieregge, 'Aktuelle Berichte – February 2005', *GRUR* 2005, p. 132.

power of the national industry. Finally, it has not given rise to many court proceedings, and to a certain extent it has also inspired the French and Swiss legislators.<sup>14</sup>

In conclusion, comparing the Dutch and the German approach to employee inventions, it seems rather difficult to deny the higher degree of legal certainty provided by the latter. This might induce the Dutch government also to consider the German Act as a source of inspiration for future legislative measures.

### 3 COPYRIGHT CONTRACTS

Most authors and many publishers and producers believe, or at least hope, that the publication or other exploitation of their works will be a success. Therefore, the success of a work protected by copyright can, as such, hardly ever be considered a really unforeseen circumstance. Copyright law as it stands has come into existence in response to new technologies, starting with the invention of the printing press, followed by many other (audio/video, analogue/digital) recording, reproduction and distribution technologies. Therefore, new (recording, reproduction and distribution) technologies can as such never be considered to be really unforeseen circumstances either.

Due to the fact that producers and publishers usually have a stronger position in negotiations on copyright contracts, there is the recurring idea that authors should be protected against one-sided contracts, such as too broad transfers of rights against one-off lump sum payments. To a certain extent this takes the shape of a general *iustum pretium* concept for authors: authors should always have the right to an equitable remuneration for the use of their work. More specifically it leads to the idea that in case of (unexpected) success or in case of exploitation through new technologies, authors should have a right to additional remuneration. The idea behind this is that it is unjust not to take this ‘unforeseen’ success of these technologies into account in determining *ex post* what is an equitable remuneration for the use of the author’s work.

Obviously, there is a lot of opposition from the side of producers and publishers against the *iustum pretium* idea and against the idea that unforeseen success and unforeseen new technologies should always give rise to additional payments. Success is rarely completely unforeseen. And even if it is unforeseen, it should not automatically give rise to additional payments, just as failures and losses do not give producers or publishers the right to get part of their payments back from the authors. Part of the deal is that producers take the operating risk, with all the advantages and disadvantages it entails.

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14 See e.g. A. Rijlaarsdam, *op. cit.*, p. 47 *et seq.*, with further references.



New technologies might be unforeseen in some cases, but more often they replace existing technologies and modes of exploitation, thereby cannibalizing the existing technologies and not giving rise to additional turnover or profits.

Nevertheless, there is a tendency to create rules of copyright contract law to strengthen the position of authors, especially where (unforeseen) success or (unforeseen) new technologies are concerned. In this part of this article we look into the situation in the Netherlands, the situation in Germany and the draft proposal for new copyright contract law in the Netherlands.

### 3.1 The Netherlands (current situation)

#### *Dutch Copyright Act*

Currently, the Dutch Copyright Act (DCA) contains only two general rules of copyright contract law in favour of the author, which are contained in article 2.2 DCA:

##### Article 2 DCA

1. Copyright passes by succession and is assignable wholly or in part.
2. The delivery required by whole or partial assignment shall be effected by means of a deed of assignment. The assignment shall comprise only such rights as are recorded in the deed or necessarily derive from the nature or purpose of the title.

Assignment can only be affected by a deed. Therefore, an oral or implicit agreement can not constitute a valid transfer of copyright. And any assignment of copyright must be interpreted narrowly in favour of the author as it only includes 'such rights as are recorded in the deed or necessarily derive from the nature or purpose of the title'. The majority opinion is that this clause is not a 'purpose-of-transfer rule' and does not exclude the possibility of assigning rights to future technologies, but there is quite some debate on this issue.<sup>15</sup> The Dutch Supreme Court was never called upon to decide on this controversy about the purpose-of-transfer doctrine. Case law on article 2.2 DCA by the lower courts is also rare.<sup>16</sup>

Dutch copyright does not provide the author or performer with a general right to an equitable or proportional remuneration. An exception, however, is included in the film rights section of the Dutch Copyright Act. For authors of films, the Dutch Copyright Act contains a separate and specific provision on the right to remuneration.

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15 See: B.J. Lenselink, *De verlening van exploitatie-bevoegdheden in het auteursrecht*, Den Haag: Sdu 2005, pp. 441-523.

16 See: District Court Haarlem 3 December 2003, *AMI* 2004-3, p. 111 (*Knudde*): in accordance with Article 2 DCA the exploitation rights that were unknown at the time of the transfer, do not fall under the transfer of copyright.

## Article 45d DCA

Unless otherwise agreed upon in writing by the authors and the producer, the authors shall be deemed to have assigned to the producer [all exploitation rights] [...]. The producer is indebted an equitable remuneration to the authors or their successors in title for all forms of exploitation of the cinematographic work. The producer is also indebted an equitable remuneration to the authors or their successors in title if he effects exploitation in a form that did not exist or was not reasonably foreseeable at the time referred to in article 45c or if he gives the right to effect such exploitation to a third party. The remunerations referred to in this article shall be agreed upon in writing. The right to an equitable remuneration for rental cannot be waived by the author.

The much debated issue is whether article 45d DCA allows the payment of a single lump sum for all existing and future technologies, or whether it requires a specification in a contract of which amount of remuneration covers which existing form of exploitation, or whether a single lump sum for future forms of exploitation is possible at all. There is, however, no decisive case law on these issues.<sup>17</sup> The current article 45d DCA has very little influence on the contractual practice in the Netherlands. Most authors and actors get a single lump sum payment for the transfer of all rights. Only the entitlement to collectively administered levies is usually exempted from this transfer.

What case law on article 45d DCA and the equitable remuneration can be mentioned? One of the few cases about the equitable remuneration is *Poppenk v. NCF*.<sup>18</sup> *Film producer Nature Conservation Films (NCF)* had film material of the nature filmmaker Hugo van Lawick. Poppenk, a freelancer who had sometimes worked with NCF, was instructed to edit a film with this material. Poppenk carried out the instruction, but he also had the idea of making a film with the remaining material about all the animals in Serengeti National Park in Tanzania. He wanted to present this material on the basis of the letters of the alphabet. Then NCF produced the English film 'Serengeti A to Z' and two Dutch versions. In addition, the broadcasting rights were granted to EO and Canal+. Poppenk received a remuneration of NLG 60,000.- for editing activities. Poppenk, however, also wanted an equitable remuneration in accordance with article 45d DCA, because NCF started to apply different forms of exploitation. He was of the opinion that he was entitled to an equitable remuneration, because he delivered a contribution of a creative nature. NCF denied this. There were no agreements in writing. According to the Court of Appeal Poppenk delivered a creative contribution by developing the idea of the alphabet, inventing the titles and selecting the scenes and creative employees. Thus

17 See: B.J. Lenselink, *De verlening van exploitatie-bevoegdheden in het auteursrecht*, Den Haag: Sdu 2005, pp. 441-523.

18 District Court Amsterdam 24 October 2001, AMI 2002, p. 17, Court of Appeal Amsterdam 18 September 2003, nr. 1293/01 (not published) and District Court Amsterdam 22 September 2004, nr. 212361/H01.0099 (not published) (*Poppenk/NCF*).

Poppenk was designated as a filmmaker and therefore he was entitled to claim an equitable remuneration. The Court of Appeal also ruled that Poppenk had a right to a percentage of the gross profits. And what was the result of three years of litigation? An amount of only € 881.89.

In another more recent case, someone (hereinafter: X) who recorded voice-over texts for the series of *Gewoon Jannes* by order of Noordkaap TV Producties, had more success.<sup>19</sup> These series were broadcast by RTV Oost. X received a remuneration for his work. However, Noordkaap also had the series broadcast by another local broadcaster, RTV Drenthe, and distributed the series on DVD. X wanted to receive an equitable remuneration of € 4,000.- for these uses of the voice-over texts, but Noordkaap relied on the oral agreement that the remuneration that was paid earlier also included the use for other purposes. It was established in the proceedings that X had transferred his rights to Noordkaap and that X had a right to an equitable remuneration for every form of exploitation. In accordance with article 45d DCA an oral agreement that excludes an equitable remuneration is not valid, because a restriction on this remuneration must be in writing. The defense by Noordkaap that they earned nothing was unsuccessful. A producer is obliged to pay remuneration even when he granted the exploitation right to a third party for free, because this producer had the power to demand a fee from that third party. Noordkaap did not dispute the level of the equitable remuneration, therefore the Court of Appeal awarded the full amount as claimed (€ 4,000.-).

In practice many problems arise around the question whether remuneration is equitable. In the case of *De Kleine Waarheid*<sup>20</sup> the court had to decide on the amount of an equitable remuneration for a performer. Distributor Bridge Rights distributed the well-known television series *De Kleine Waarheid* on DVD in 2005. The performers received a remuneration varying from € 150.- to € 500.- depending on the size of their part. Every performer accepted the remuneration, except Van Selst. He claimed a remuneration of € 7,000.-. Bridge refused to pay this remuneration. The court decided that article 45d DCA did not give clear guidance and that market value should determine the amount of the remuneration. Van Selst did not have concrete market data to prove the need for the higher remuneration, therefore the court had to rely on the market survey of Bridge. It was evident from this survey that it is usual to pay an all-in lump sum remuneration and no royalty for a supporting role. Furthermore, the remuneration is smaller when the number of participants is bigger. In this case the fact that there were 92 people who participated in *De Kleine Waarheid* and the fact that they all accepted the same remuneration, convinced the court to consider the remuneration of € 250.- as reasonable.

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19 Court of Appeal Arnhem 6 January 2009, LJN BG9938 (*X/Noordkaap TV Producties; Gewoon Jannes*).

20 District Court 's-Gravenhage 8 July 2009, IEF 8049 (*Acteur/Bridge Rigts; De Kleine Waarheid*).

In the *Bassie & Adriaan*-case<sup>21</sup> no additional remuneration was rewarded at all. A group of performers with small parts in the *Bassie & Adriaan* series claimed an equitable remuneration for exploitation of the series on DVD and for the repeats on television from the companies of the leading actors Bassie and Adriaan, which had taken over the production rights to the series. Not all performers had agreements in writing. Claims related to series dating from before 1 August 1985 were denied because article 45d DCA entered into force on that date and was not given retroactive effect. In some contracts it was explicitly agreed upon that the remuneration paid included the remuneration for repeats, video cassettes and sale of television rights. According to the court these performers only had a right to a one-off lump sum payment as equitable remuneration, which they already had received. Just one claim remained in this case. Bassie and Adriaan pleaded that the costs of the productions were much higher than the proceeds would ever be. The performer had not disputed the financial statements with any contrary evidence. According to the court these circumstances were relevant for the amount of the remuneration. Because of the additional circumstances, the contribution of the performer was minimal and the remuneration that the performer had received earlier had been considerable, the court decided to award no additional remuneration at all. Finally, the court also ordered this performer to pay the costs of the proceedings. Reliance on article 45d DCA in court has not brought much to actors and authors in the Netherlands.

### 3.2 General civil-law concept of *imprévision*

Article 258 of Book 6 of the Dutch Civil Code (DCC) contains the following provision:

1. Upon the demand of one of the parties, the court may modify the effects of a contract or it may set it aside, in whole or in part, on the basis of unforeseen circumstances of such a nature that the other party, according to standards of reasonableness and fairness, may not expect the contract to be maintained in unmodified form. The modification or setting aside may be given retroactive effect.
2. The modification or the setting aside shall not be pronounced to the extent that it is common ground that the person invoking the circumstances should be accountable for them or if this follows from the nature of the contract.
3. For the purposes of this article, a party to whom a contractual right or obligation has been transmitted, is treated as a contracting party.

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21 District Court Rotterdam 5 August 2009, B9 8103 (*Stobbe c.s./Adrina Produkties en Bassie Produkties*).

This provision is mandatory pursuant to article 250<sup>22</sup> and elaborates on article 2<sup>23</sup> and article 248<sup>24</sup> of Book 6 of the Dutch Civil Code (reasonableness and fairness). Authors could possibly rely on this legal provision in case of special unforeseen circumstances, such as special unforeseen new technological forms of exploitation. However, there is as yet no case law indicating that such a claim could be made successfully. There also is no evidence that article 258 of Book 6 of the Dutch Civil Code has had any influence on the contracting practice in the Netherlands.

### 3.3 Germany

Between 1965 and 2002 the German Copyright Act contained a so-called 'Bestseller' provision in article 36 of the German Copyright Act (GCA):

'If an author has granted an exploitation right to another party on conditions which cause the agreed consideration to be grossly disproportionate to the returns and advantages from the use of the work, having regard to the whole of the relationship between the author and the other party, the latter shall be required, at the demand of the author, to assent to a change in the agreement such as will secure for the author some further equitable participation having regard to the circumstances'.

This clause was seldom applied because the condition of 'gross disproportionality' was taken to be very strict. Through case law of the German Supreme Court it was also decided that the 'Bestseller' provision could only apply if the 'gross disproportionality' was unforeseen.<sup>25</sup> This condition of 'unforeseeability' was criticized because it meant that only 'naïve' authors could profit from the bestseller provision. Where an informed author clearly foresaw the

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22 Article 6:250 DCC: 'A contract may derogate from the following articles of this Section, with the exception of articles 251, paragraph 3, 252, paragraph 2, to the extent that the requirement of a notarial deed is concerned, and paragraph 3, 253, paragraph 1, 257, 258, 259 and 260.'

23 Article 6:2 DCC: '1. An obligee and obligor must, as between themselves, act in accordance with the requirements of reasonableness and fairness.  
2. A rule of law, usage or a juridical act which would otherwise bind them shall not apply, insofar as, in the given circumstances, this would be unacceptable according to standards of reasonableness and fairness'.

24 Article 6:248 of the Dutch Civil Code: '1. A contract not only has the juridical effects agreed to by the parties, but also those which, according to the nature of the contract, result from law, usage or the requirements of reasonableness and fairness.  
2. A rule binding upon the parties as a result of the contract does not apply to the extent that, in the given circumstances, this would be unacceptable according to standards of reasonableness and fairness'.

25 German Supreme Court 27 June 1991, *GRUR* 1991, 901 (*Horoscope-Calendar*) and German Supreme Court 22 January 1998, *GRUR* 1998, p. 680 (*Comic-translations*).

later success of a work, but was not strong enough to negotiate a corresponding remuneration, reference to the bestseller provision was useless.<sup>26</sup>

In 2002, together with the introduction of a general right to an equitable remuneration for authors, the 'Bestseller' provision was changed into a 'Fairness' provision in article 32a GCA:

'If an author has granted an exploitation right to another party on conditions which cause the agreed consideration to be conspicuously disproportionate to the returns and advantages from the use of the work, having regard to the whole of the relationship between the author and the other party, the latter shall be required, at the demand of the author, to assent to a change in the agreement such as will secure for the author some further equitable participation having regard to the circumstances. It is not relevant whether the contracting parties foresaw or could have foreseen the level of such returns or advantages'.

'Gross disproportionality' was replaced by 'conspicuous disproportionality' and an extra sentence was added stating that foreseeability was no longer relevant. This new provision must be viewed in relation to the preceding article 32 GCA, which was also new in 2002 and introduced a general right to an equitable remuneration:

'For the grant of exploitation rights and permission to use a work the author is entitled to the remuneration contractually agreed. If the rate of remuneration is not settled, the remuneration shall be at an equitable level. If the agreed remuneration is not equitable, the author may require from his contracting partner assent to alter the contract so that the author is assured an equitable remuneration'.

Article 32 GCA contains the right of the author to revise a copyright contract *ex ante* if the agreed remuneration is not equitable. Article 32a GCA contains the right of the author to revise a copyright contract *ex post* if the agreed remuneration turns out 'conspicuously disproportionate' (after the exploitation has taken place and the profits have been made), and probably therefore 'not equitable' either. 'Unforeseeability' is no longer relevant.

There is now some case law from the courts in Germany. So far the new provisions of copyright contract law in Germany seem to have had little effect, but have led to many questions and legal uncertainty.<sup>27</sup> Must the 'conspicuous disproportionality' be determined by comparing the remuneration of the author with the net profit made by the producer or with the gross income by the same? Can there only be 'conspicuous disproportionality' if the remuneration

26 A. Dietz, 'Amendment of German Copyright Law in Order to Strengthen the Contractual Position of Authors and Performers', *IIC* 2002, p. 828.

27 See for example: N. Reber, 'Der 'Fairnessparagraf', § 32a UrhG', *GRUR Int.* 2010, p. 708 (709) and: C. Berger, 'Sieben Jahre §§ 32ff. UrhG – Eine Zwischenbilanz aus Sicht der Wissenschaft', *ZUM* 2010, p. 90.

of the author is below the level of 'equitable remuneration'? Does the level of 'equitable remuneration' depend on 'the returns and advantages from the use of the work' aggregated by the producer? Is there always 'conspicuous disproportionality' if the remuneration is not 'equitable'? Is every author or actor, including stand-ins, extras, make-up artists and all other people mentioned in the credits at the end of a film entitled to equitable remuneration or revision of a contract on the basis of 'conspicuous disproportionality'? The Court of Appeal of Munich recently ruled that the graphic designer of the introductory sequence of a police series on television cannot rely on the 'conspicuous disproportionality' clause.<sup>28</sup>

In another case, based on article 32 GCA, the German Supreme Court has ruled recently that translators of books have a right to an equitable remuneration on top of the agreed lump sum payment per page, consisting of a royalty of 0.8% of the net sales price of hardcover editions and 0.4% of the net sales price of pocket editions, after more than 5,000 copies have been sold.<sup>29</sup> The Court also ruled that translators always have a right to one fifth of the remuneration the original author receives. Does this mean the  $5 \times 0.4\% = 2\%$  is (always) an equitable remuneration for original authors for sales over 5,000 copies of a hardcover edition? What does this mean for lump sum payments or royalties for sales under 5,000 copies? Can those payments or royalties be set at will by the publisher, taking account of the royalties for more than 5,000 copies? It seems quite unpredictable what the consequence of these kind of decisions will be in the long run.

### 3.4 The Netherlands (proposed legislation)

On 1<sup>st</sup> of June 2010 the Dutch government released a preliminary draft for a new system of copyright contracts in the Netherlands.<sup>30</sup> This preliminary draft contained several proposals including the abolition of the transferability of ownership of copyright during the lifetime of the author and a maximum duration of five years for exclusive licence agreements. These two far-reaching proposals have been dropped by the spring of 2011, and will not be discussed here. The preliminary draft is based to a large extent on the German example described above.

This preliminary draft also contained a proposed article 25c.1 DCA containing a general right to an equitable remuneration:

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28 Court of Appeal Munich 10 February 2011, 29 U 2749/10 (*Bötttrich-Merdjanowa/Bayerische Rundfunk*). <<http://www.justiz.bayern.de/gericht/olg/m/presse/archiv/2011/02919/index.php>>.

29 German Supreme Court 20 January 2011, I ZR 19/09 (*Destructive Emotions*).

30 See <<http://www.internetconsultatie.nl/auteurscontractenrecht/document/146>> (accessed June 2011).

‘The author has a right to an equitable remuneration for the granting of an exclusive licence for the exploitation of his work, in whole or in part.’

This preliminary draft also contained a bestseller or fairness paragraph<sup>31</sup> (also known as a disproportionality rule):<sup>32</sup>

Article 25d

1. Upon request of the author a court can change an exclusive licence agreement in favour of the author, if the remuneration the author receives shows a serious disproportionality with the profits in the exploitation of the work, in view of the mutual performance of the parties. The court will also take into account the nature and the further contents of the agreement, the way in which the agreement came into existence, the mutual interests of the parties and all other circumstances of the case.
2. To the aforementioned change can be given retroactive effect.

In the explanatory memorandum for this draft law<sup>33</sup> it is mentioned that, for a successful appeal based upon this disproportionality rule, there must be a serious disproportionality with the profits in the exploitation of the work, in view of the mutual performance of the parties. This serious disproportionality must be established objectively. The subjective feeling of the author is not relevant.

This disproportionality rule has a broad scope, in the sense that it applies to situations in which the level of a lump sum payment has been too low, as well as to situations with an insufficient royalty rate. That being said, according to the draft explanatory memorandum, the rule will in practice be applied less frequently with royalty agreements because the remuneration of the author is then related to the number of copies sold. Not every disproportionality is immediately a ground for a change by the courts of an exclusive licence agreement. There must be a *serious* disproportionality. According to the draft explanatory memorandum this will ensure that the producer or publisher will have sufficient opportunity to recoup his investment. It also ensures, according to the memorandum, that a producer or publisher, who is prepared to take the entrepreneurial risk of exploiting the work, can make a profit. That is necessary in order to be able to offset losses on other investments.

This disproportionality rule does not require that the serious disproportionality was unforeseen at the time when the agreement was concluded. The rule therefore also applies to agreements which were seriously disproportionate

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31 Implementation of the bestseller paragraph has already been recommended in the past, cf. P.B. Hugenholtz, *Sleeping with the enemy*, inaugural lecture University of Amsterdam 1999.

32 The provision will also apply to (the Dutch Law of) related rights, see preliminary draft Article 2b.

33 See <<http://www.internetconsultatie.nl/auteurscontractenrecht/>> (accessed June 2011).



from the beginning. That is the added value of this rule compared to article 258 of Book 6 of the Dutch Civil Code. The *imprévision* rule in that article could be set aside easily by adopting a standard clause to cater for the possibility of a large commercial success, without any upside for the authors or performers.

The disproportionality rule only applies to authors as natural persons, not to legal entities which can be titleholders on the basis of the employer right or on the basis of article 8 DCA. The rules also apply to heirs who are natural persons.

Producers and publishers cannot invoke the disproportionality rule. If the exploitation of the work flops, they cannot ask the courts to change the agreement to make the author share in the losses. A flop is part of the entrepreneurial risk taken by the producer or publisher. According to the draft explanatory memorandum a producer or publisher can limit the risk of a successful appeal to the disproportionality rule by applying a royalty-based payment system.

Obviously, the big difficulty is to determine objectively whether the compensation for the author is disproportionate, just as it is very difficult to determine what an equitable remuneration is.<sup>34</sup> What is a balanced division between author and publisher or producers, is the fundamental question which SEO Economic Research, the Amsterdam-based centre for scientific economic research, rightly asks.<sup>35</sup> Partially, the revenues of a copyrighted work are determined by its market value, which is dependent on the talent of the author or the preference of the buying public or the audience. But revenues also follow from the investment made, usually by the producer or the publisher, in the production, distribution and marketing. However, these values cannot exist independently. The intrinsic value of a copyrighted work cannot be achieved without production, distribution and marketing. Investments in production, distribution and marketing lead nowhere if there is no valuable copyrighted work. A royalty-based model seems attractive, because both the author and the publisher or producer share in the profits. But royalties mean uncertainty and an author being generally the more risk-averse person might want to replace this uncertain income by a fixed fee to be paid by the less risk-averse publisher or producer. According to SEO, the disproportionality rule is mainly disproportionate for the publisher or producer. Producers want to be the exclusive residual claimants and do not want to cut into their managerial freedom. Artists usually have nothing but their human capital for a living and, like ordinary workers, do not want to bear market risks. The publisher or producer must recoup his investment and compensate for his losses in other

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34 See e.g. SEO Economic Research, *Prova d'Orchestra, Een economische analyse van het voorontwerp auteurscontractenrecht*, December 2010, p. 17, see: <[http://www.seo.nl/uploads/media/dp59\\_prova\\_d\\_orchestra.pdf](http://www.seo.nl/uploads/media/dp59_prova_d_orchestra.pdf)> (accessed June 2011).

35 SEO Economic Research, *Prova d'Orchestra, Een economische analyse van het voorontwerp auteurscontractenrecht*, December 2010, p. 17.

investments. The only way to do so is to invest in many works, to ensure that some of them are successful. The ‘equitability’ of the remuneration of bestseller X depends on the flops of Y and Z, according to SEO. The question is how to determine equitability. On the basis of the profitability of the publisher or producer? Over which year or years? How far back do you go in time to establish ‘equitability’? Do the flops in 1980 still count in 2010? Apparently, there is very little sound economic basis for the proposed copyright contract law.

It seems that the Dutch legislator wants to introduce copyright contract law which is almost entirely based on the example of Germany. It is highly questionable whether that is a wise decision, because it is clear that this model has led to much uncertainty and many as yet unanswered questions in Germany. The proposed legislation will create much legal uncertainty and will leave it entirely to the courts to decide what is to be understood by ‘equitable remuneration’ (for every mode of exploitation) and what is to be understood by a ‘serious disproportionality’ between the remuneration the author receives and the profits on the exploitation of the work, in view of the mutual performance of the parties, thereby taking into account the losses incurred by the producer in other projects.

The creation of rules which allow parties to ask the courts to revise the contract and ask for additional payment whenever the project involved turns out to be a success, based on vague concepts such as ‘equitable remuneration’ or ‘serious disproportionality’, creates legal uncertainty.

This legal uncertainty may lead to fewer producers or credit-facilitators in the Netherlands willing to invest in films and thereby to fewer films being produced. In such a scenario the proposed legislation might turn out to be counterproductive and lead to less work and less income for authors and actors in the Netherlands.

#### 4 CONCLUSION

In contract law the legislator must try to find the proper balance between socio-economic equity and legal certainty and between general and vague concepts and detailed legislation. As far as employee inventions are concerned Dutch case law shows that employees/inventors will very seldom get additional equitable remuneration. Authors and actors also very seldom get additional remuneration on top of what has contractually been agreed upon, despite the existence of a specific rule in article 45d DCA. The Dutch legislator seems to want to follow the German example in the field of copyright contract law. Because of the economic realities of the market place and the limited success of the German example there is some doubt whether there is going to be any benefit to actors and authors.